MANAGERIAL ROLE IN FINANCE AND RISK MANAGEMENT

mr Sead Mušinbegović *, dr Vladimir Stojanović **, Sabina Mušinbegović ***

* "Vispak" dd Visoko, Visoko, Bosna i Hercegovina
** ALFA Univerzitet Beograd, Beograd, Srbija
*** Visoko, Bosna i Hercegovina

***Abstracts**: Managerial role in finance and risk management in the conditions of market economy is dominant in the monitoring and implementation of other company functions. Financial flows are followed by all other activities, whose success or failure, directly influence the finance, but financials and risk management has excellent and often decisive role in achieving the mission and vision of the enterprise as a key strategic development objective.*

***Keywords**: finance, financial risk management, diversification of investments, control, derivative securities*

INTRODUCTION

A managerial role in finance in any enterprise is an indispensable link in the realization of its mission and vision. The mission is the expression of business orientation and markets towards this orientation, a method of targeting businesses, and the way of communicating with customers, with an emphasis on skills that will be important for achieving competitive advantage. Vision, as used interchangeably synonymous with the mission, the practice is different from the mission because the mission of what the company does, and vision is what the company could be successful if it achieves its mission.[61]

This time we will only emphasize that mission and vision of the determinants are of exceptional importance for strategic management, which in its activities in this direction largely relies on a management role in finance, without which quality of functioning is impossible to conceive functioning of a business entity, especially the manufacturing enterprise. Therefore, the strategic role of finance and risk management is highly important for the company, and the ability to use available, especially discovering of new sources of financing and investment and asset management wisely, is actually a basic condition and the pledge of vitality, success, and company growth.

[61] Dževad Šehić „*Strateški menadžment*“, Sarajevo 2002.

FINANCIAL MANAGEMENT

Financial Management is a term used to indicate the integrated managerial approach of managing cash activities i.e. companies financial assets. It involves the collection of its own and other's sources of funds, debt collection policy, control of cash flows, profit sharing criteria, the selection of investment opportunities, and others.

Financial management involves planning the future of business enterprise in order to ensure a positive cash flow. It includes administration and maintenance funds. In addition, financial management includes the process of identifying and managing risks.

The primary concern of financial management is an estimate not a financial quantification technique. The financial manager use available data to assess the performance of an enterprise.

Financial management is an interdisciplinary approach that takes in managerial accounting and corporate finances.

Some experts refer to the financial management as a science of managing money. However, financial management is important at all levels of human activity.

From the organizational point of view, the process of financial management is related to financial planning and financial control. Financial planning seeks to quantify the diversity of available financial resources and to plan the size and time of expenditures. Financial control refers to monitoring cash flow. The inflow is the amount of money that comes in a particular company, while an outflow relates to expenses incurred by the company. Managing this movement of funds in relation to the budget is essential for the job. Financial management in all its elements involves decision-making. Financial decisions precede each fiscal activities carried out by the company, brought by financial managers based on numerous external and internal information.

Financial managers are designed to improve the level of resources available to them. In addition, they control the use of money invested by foreign investors.

Manager at a certain position in the company receive orders from superiors, but the same orders as necessary transfers to lower levels, so that is both superior and subordinate. The mere ability to recognize the appropriate role that should be played and willingness to change roles is one of the signs of a successful manager.

Activity of financial management of the company should be directed towards harmonization of the financial affairs of enterprises (needs, principles, and requirements) and financial and capital markets. At the firm level basic decisions about the transaction of real assets or investments are made, and liquidity or income, and allocation of cash, while at the level of capital markets the biggest problem is the evaluation and commercialization of activities. However, if a company as a joint stock company is aimed at maximizing shareholders' funds, then the firm must maximize its market value. Market value depends on the current yields and the current value of the expected yields in the future, which, in turn, depend on, among other things, the following factors: interest rates and risk of future returns.

Financial theory explains that by correlation between the financial structure of stock companies and the market value, which means there is a financial structure in which the value of the company is highest.

In the present business conditions, financial management is very important because it constantly and simultaneously provides the answer to important questions:

- What means the company has,
- How company forms them and how reaches them,
- What is the level of company’s funds, what their structure is, and what is the way of financing these funds

The task of the financial management is reflected in the coordination of company’s financial operations, liquidity, and investment, then the allocation of cash, transaction of real assets and capital market (valuation of companies and commercialization of stocks). If the company as a limited company aims to maximize shareholders' funds, then the company has to maximize its market value. It is very important to connect profits, risks and time in the implementation of financial management, particularly in:

- Financing companies in various stages of operation;
- Achieving optimal capital structure of firms;
- Valuation of companies;
- Dividends and share prices and yields;
- Cash flow and liquidity
- Financial planning

Financial management must know the full range of financial instruments to finance the new private, public, and mixed enterprises, such as capital investment (permanent grants), grants, loans, development funds, risk capital, leasing, joint ventures, and actions, which would be increase its assets based on risk and profit.
Financial management must be familiar with the internal (accounting, investment) and external financial conditions.
Decisions of financial management are associated with large uncertainties (risk), because of which is extremely important in financial management to relate yields (profit), time (long, medium, and short term) and uncertainty (risk). Financial management is a broad area, so we only point to some areas that might be of interest especially for companies in the process of restructuring and testing of new strategic business decisions.
Important areas of financial management are:

- Financing company in stages of establishment, development and disappearing (the problems of financing enterprises in different phases of life, new sources of finance, new financial innovations, etc.);
- Optimal capital structure of the company (investment/financial alternatives ratio, optimization of assets, shareholders, the impact of investment opportunities in borrowing, etc.);
- Valuation of the company (general principles of evaluation, different evaluation methods, for example, accounting value, estimated value of the combined method of high value, etc.)
- Dividend policy (the impact of dividend policy on share price and yield, capital markets and the impact on the value of shares, dividend policy, and investment;
- Short-term policy of cash flows and liquidity (demand for money, short-term planning of the finance in the company, etc.);

Financial managers need to have a general knowledge of the organization, operation of companies, business communication and the like.
Financial management is, therefore, the main lever of financial management of companies and refers to managing financial policy, financial planning, financial organization, financial records, financial analysis, financial control, and financial information of the company. These elements of financial management must work uniquely; otherwise, there is a disorder of financial trends and problems in achieving financial management.

FINANCIAL RISK MANAGEMENT IN ENTERPRISES

When it comes to managing financial risks, we will pay special attention to risk management that forecasting and planning brings. In fact, this is starting function of managing small and medium, and large enterprises. It is based on identifying of the preconditions for the realization of these goals, and the choice of methods and techniques for their achievement. In the scope of forecasting and planning, financial manager must work with managers of other business areas, since it must view and set future plans that will affect future operations and position of the company within the industry and the economy as a whole. With the current policy, management performs (earlier) planned development policy.
In addition, it exploits the existing factors of success of enterprises and creates results for current usages (dividends for owners and funding for enterprise development). With developmental and basic policies, management plans new combinations of the success factors of enterprises ("success formula") for the next period. This means that, starting from the achievements of the current policy, management plans policy (goals) development and strategies for their achievement and selects the new programs (analyzing the gap between the potential and limits of enterprise development), and planned development of the company (assets, plans to introduce new programs). Since the current policy is the basis for development policy and development policy is the framework for the current policy, between them there should be an organic connection, because it runs from today’s to tomorrow's successfulness of company.[62]
When planning in the essence of this task are investments, or investment proposals, which inevitably follow the dilemma of whether to measure the risk in order to accept or reject the investment proposal.
Bringing investment and financial decisions based on long-term plans, financial management must provide the capital needed to support the growth of the company. Successful companies typically achieve high growth rates of sales that require investment in machinery and equipment. The financial manager must participate in determining the optimal rate of sales growth in the ranking of alternative projects that are at company's disposal. In addition, the financial manager has to help in deciding on investments to be undertaken, and the alternative sources and forms of funding for these investments. Therefore, the role of financial management is of great importance when investing, because “investors rarely invest its entire fortune in a single property or investment... When it comes to several investment projects, we can carry out their

[62] M. Tavčar, *Strateški menadžment*, Univerza v Mariboru, Maribor-Koper, 2002 godina, str. 339

combined risk... Please note that the combination of projects is the way to reduce risk and it is known as diversification.

Diversification of investment should enable company to combine an efficient portfolio of assets - capital that is expected to produce a “high rate of return given the level of risk, that risk is reduced to a minimum with a given rate of return.”[63] Therefore, the company is protected from potential crisis with the diversification of its activities, programs, and products. In this way, it performs risk dispersion - becoming less likely that risks will hit all the activities simultaneously. In addition, the company is protected from potential crises and risk control, which seeks to master (in) secure position of enterprises in the economy and society and provide enterprise level security (which is less deviation from the set goals) necessary for survival and development. Risk management[64] use techniques of pure risk insurance - on which the company cannot influence, and entrepreneurial strategies for entrepreneurial (business) risks over time, and does not guarantee that they will hit the company, although it counts as the possibility of their occurrence.

One of the necessary financial management activities of control is performed through the comparison of planned and achieved results in the business process. Pointing to the positive and negative deviations from the planned control, in fact, both control and achievement levels of risk and serves to perform timely certain preventive rethinking. Control is inevitable companion of productive managerial action, because the financial indicators are “relentless” in describing the situation. Management that regularly checks the policies, with appropriate control, will hardly miss signs (signals) that indicate the occurrence of major crisis of a particular program, individual functions, or the company as a whole. Integrity of basic, development, and current policy does not include only connection current with the next period of business, but link its activities. Occasional company restructuring, that represents the reaction of management on declining performance and a measure to prevent a possible crisis, is more successful if it includes all important aspects of enterprise operation, than if it is confined to the financial (or any other) aspect.

Therefore, in order to reduce risks to the smallest possible measure, financial managers must work with managers in other areas of activity of the company, because all business decisions have financial implications - which all managers must take into account. In this sense, financial management must control the financial effects of the set goals, and perform corrections of its financial activities.

Each company has a certain effect on the financial markets, but financial markets affect it too. This occurs through the borrowing of funds, securities trading company, trading in securities of third companies or, for example, interest payments to those who have invested in securities of company.

Interactions of the company with money market are far more frequent, especially with commercial banks. All these markets are closely linked, so financial managers must understand the functioning of money markets and capital.

[63] Slobodan Milovanović i Marko Carić, “*Finansijski menadžment*”, Drugo dopunjeno izdanje Novi Sad 2007, str. 256

[64] M. Tavčar, *Strateški menadžment*, Univerza v Mariboru, Maribor-Koper, 2002, strana 364.

In developed financial and business management systems, a set of different financial instruments that are being implemented through various techniques and methods of risk management is available.

Risks to which a particular company is exposed depends on many factors, such as type of business which the company does, the manner of conducting business, micro and macro environment, and the like. An important factor of responsibility for risks and opportunities to take action to manage risk and firm size, which, in situations where companies are financially stable and more, provides a broad range of possible courses of action.

Wider understanding of financial risk includes, for example, the risk of drawing money from the company, the risk of adverse intercompany loans, refinancing risk, the risk of the price change (market risk) and the like. Financial risks in the narrow sense are liquidity risk, currency risk, and interest rate risk. Risk management is now an essential part of business processes and forms a part of the administration.

The process of risk management in the enterprise is in the function of increasing company value. It consists of clearly defined steps which, when applied in the correct order, provide better support to decision-making, contributing to better understanding of the risks, and their potential consequences. Risk management deals with identifying the opportunities and possibilities of the company, avoiding the threats that come from company environment and that may adversely affect the financial position of the company. The volume and number of economic and other threats and hazards that threaten the operation and development of enterprises depends on the activities of companies, technologies and techniques that it uses, characteristics of the market where it operates, the political situation at home and abroad, business locations, knowledge and skills of employees, management attitude (and owner of the company) to risk and so on.

Development of financial systems and the emergence of various risks in business have led to the gradual emergence of various forms of derivative securities, such as futures, forward contracts, swaps, options, warrants, and more. The development of derivative securities had an important role factors such as volatility of prices of goods and services, interest rates and exchange of resources, inflation, restrictions on interest rates, technological advances, etc. Markets for derivative securities allow investors to, at a certain price (the premium), to avoid risk in a way that transferred it to the entity that it is willing to bear.

Banks, insurance companies and other financial institutions are risk-professional and have great significance in the financial market. In accordance with changes in economics and finance, have developed various forms of derivative securities by which the risks are transferred to the other side. This allows the investor, who is vulnerable to risk, to minimize its exposure and transfer risk to another party who is willing to undertake it, and all the consequences that accompany such decision.

Today it is impossible to imagine developed economy without securities, cash, foreign exchange, and even more important and significant financial derivatives. As every business entity wants to reduce the uncertainty of their business and make possible a higher gain, the use of derivatives in the practice is growing; new derivative financial instruments and new ways of using old derivatives are developing.

RESUME

Managerial role in finance is a strong support of operation and development of each company. Without financial functions it is not possible to even discuss be neither on implementation of all other functions in the company that are achieved to meet the specific needs of people and social needs.
According to the authors of this paper, the central issue, but also a persistent problem mastered in continuity, is risk management in finance. As in the previous presentations can be seen, these risks “are lurking on every corner,” so the financial management is the first to prevent and cope with risks maximally. This is not an easy job and task, it assumes a maximum accuracy of accounting - information function, and knowledge of investment, and external financial conditions are based on continuous control and checking of all processes and flows in which plans of companies are realized.
Since in this study we indicated that the risks are dependent on a number of specific factors, they could never be eliminated. As the risk is present, a challenge to move in a particular activity and the activity is also present, so the relationship to risk assessment is manifested based on the appraisal what you can lose and how much you can gain. In this financial management through the management of financial flows and processes have at its disposal a number of mechanisms to reduce financial and other risks i.e. risk management, but they never can be eliminated.

According to the authors of this paper, this fact has its development function.

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